



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Mark Danaj

**SUBJECT: COUNCIL APPOINTEE SALARY
ADJUSTMENTS**

DATE: March 14, 2006

Approved

Date

3/14/06

REPLACEMENT MEMO

We received feedback on the original memorandum, dated March 2, 2006, from the Council Appointees and representatives of the City Labor Alliance. After additional review and consideration, this memorandum replaces the original memo.

The primary differences between this replacement memo and the original include:

- The elimination of graphical depictions of cumulative base increases by employee group and cumulative total increases (base and merit) by employee group;
- The addition of a new chart depicting general wage increases only by employee unit;
- The replacement of the original options B and C with two new versions; and,
- The elimination of the question and answer attachment.

RECOMMENDATION

Accept this report related to Council Appointee salary adjustments and direct staff as appropriate.

PREFERRED OPTION

As a result of the research that has been completed, three options have been developed for Council's consideration, with Option C as the preferred option. Option C provides a combination of a merit base increase consistent with the performance-based

pay system used for Senior and Executive Staff and a one-time merit pay increase consistent with Appointee performance ratings. This is the only option that retains some portion of the merit pay as "one-time," consistent with Council's practice since FY 02-03 for one-time merit pay.

It is also suggested that Employee Services be directed to develop a merit based compensation plan that incorporates best practices, including salary ranges for each of the Appointees prior to the next performance appraisal period.

BACKGROUND

On February 7, 2006, the City Council considered an agenda item related to Council Appointee salaries and directed staff to return to the City Council with the following:

- How the City has provided merit increases as a part of base salary for Council Appointees;
- Information on Appointee survey methodology, historical salary increases for all employee groups and indexing salary adjustments for Council Appointees; and,
- Best practices of administering executive compensation plans.

Council Appointee Compensation Methodology and History – How the City has provided merit increases as a part of base salary for Council Appointees and information on survey methodology.

In a December 19, 2000 memo to Council and an April 17, 2001 memo to the City Manager, the Mayor recommended a new compensation methodology for Council Appointees. The Mayor's recommended approach consisted of two components:

1. Use annual salary surveys as a means to set Appointee base salaries and ensure that those salaries are competitive with similar positions in other appropriate jurisdictions; and
2. Use a methodology that allows any one-time merit pay received by Council Appointees to be distributed in a way that counts towards retirement without becoming part of base pay.

The Mayor stated that the purpose of this methodology of compensation was to ensure that Council Appointee base salaries remain competitive and that Appointee performance evaluations would be used to establish merit increases based on performance. Performance evaluations were conducted and merit increases were granted to Council Appointees utilizing this methodology with an effective date of June 24, 2001.

Internal documents show that the survey instrument utilized for Council Appointees was changed in 2002. Some agencies that had been included in the 2001 survey were dropped because of their smaller size. In addition, incumbents were given the opportunity to suggest agencies that were comparable matches. The labor markets surveyed in 2002 were individually tailored to reflect the unique characteristics of each position. As a result, there was a different emphasis on local, statewide and national agency comparisons for the individual positions.

Council Appointee Increases and Decreases by Fiscal Year

Fiscal Year 02-03: Base and/or merit increases were provided to Council Appointees based on performance and survey information. Council Appointees whose base salary was found to be below the median market average of the surveyed jurisdictions were adjusted to that average; any Appointee whose salary was at or above the median did not receive a base salary adjustment. In addition to any market rate salary adjustments, one-year merit pay in various amounts was provided to each of the Appointees.

Fiscal Year 03-04: While the performance appraisal process was underway, no changes were made to the Council Appointees' pay from the previous fiscal year. When the performance review process was completed, the Mayor indicated in his report to the City Council that, if salary adjustments had been recommended, the average Council Appointee salary adjustment would have been about 7%. In January 2004, salaries were reduced to the Fiscal Year 02-03 level. The City Attorney and the City Auditor each lost pay equivalent to 5.66% of their salary, and the Executive Director of the Redevelopment Agency lost pay equivalent to 3.84% of salary.

Fiscal Year 04-05: No base or merit increases were provided to Council Appointees. However, the Mayor indicated in his report to the City Council that, had there been salary adjustments, the average Council Appointee salary adjustment would have been about 7.7%.

Fiscal Year 05-06: In June 2005 the Appointees, with the exception of the Independent Police Auditor, who was recently appointed, received a 1.5% increase consistent with the base salary increase provided to other City employees.

Utilizing the survey information of November 2005, the Mayor and Vice Mayor recommended that Appointees whose current salary was not at or above the geographically adjusted survey average would receive a base salary adjustment. Adjustments to salaries that were currently at or above the survey average were recommended to receive a one-time merit pay distributed throughout FY 05-06. The recommended merit based increases ranged from 7% to 9%. This recommendation was not adopted and this memo responds to the questions asked by the City Council at its February 7, 2006 meeting.

Best Practices

In reviewing the best practices of various large city and county agencies throughout the United States, we found the following consistencies among most agencies:

- Established salary ranges for their appointed officials and increases are part of base pay for purposes of retirement;
- The use of merit standards to determine an individual's eligible increase;
- The periodic conduct of an established group of surveys and survey comparables (some annual, some every two years, some periodically as needed);
- Systems designed to reward and recognize differences in employees' individual job performance;
- Standardized methods and procedures for establishing and applying rates of pay; and,
- A methodology for ensuring consistency within and between various departments.

The following should be considered when establishing best practices for compensation plans:

- Legal compliance with all appropriate laws and regulations
- Cost effectiveness for the organization
- Internal, external, and individual equity for employees
 - Internal equity is a fairness criterion that involves setting pay rates for jobs that correspond to the relative internal value of each job. Internal equity refers to the value of the work performed on a job to the employer. Internal equity is unrelated to external equity.
 - External equity demands that an employer pay a rate that corresponds to rates prevailing in external markets for the employee's occupation.
 - Individual equity refers to the payment of wages or salaries based on variation in individual merit. Merit factors include job performance, tenure or experience, and skills or competencies.
- Performance enhancement for the organization
- Balance compensations costs at a level that both ensures organizational competitiveness and rewards employees sufficiently for their knowledge, skills, abilities, and performance accomplishments.

ANALYSIS

The purpose of this section is to explain the pay progression for City employees and to provide data on the pay increases for employee groups over the last several years.

Pay increases for City employees occur in one of two primary ways:

1. **General Wage Increases.** These are increases that apply to all employees in a group regardless of performance. For bargaining units, these are the negotiated pay increases. For example, the 1.5% increase negotiated with the bargaining units this year is a General Wage Increase that is received by **all** employees in that unit. It is provided to employees regardless of performance or merit. Employees who are at the top step still receive the General Wage Increase and all steps are increased by the amount of the General Wage Increase.

Following is a chart of **General Wage Increases**, exclusive of any step and/or merit increases referenced on page 4, for the last three years:

Employee Unit	FY 03-04	FY 04-05	FY 05-06
IAFF	4.00%	TBD	TBD
OE#3	6.00%	0%	1.50%
Unit 99	3.00%	0%	1.50%**
Unit 99 (Senior & Executive Staff)	0%	0%	1.50%**
AEA	3.00%	0%	1.50%
AMSP	6.00%	0%	1.50%**
ABMEI	6.00%	0%	1.50%
IBEW	6.00%	0%	1.50%
CAMP	6.00%*	0%	1.50%**
MEF	6.00%*	0%	1.50%
CEO	6.00%	0%	1.50%**
POA	4.00%	0%	1.50%
Council Appointees	0%	0%	1.50%

* A portion of the 6% was allocated to other items

**These groups received slightly higher increases than 1.5% that were funded through a reduction in other benefits. (0.3% for CAMP and Unit 99 other than Council Appointees, 0.4% for AMSP, and 0.25% for CEO)

2. **Step and Merit Increases.** Most City classifications have a pay range, with a minimum salary (Step 1) and a maximum salary (Top Step).

MEF, OE#3, CEO, IBEW, ABMEI, POA and IAFF: In these non-management groups, most classifications have five steps with 5% between each step.

Movement from Step 1 to Step 2 occurs after six months of service and one year between all other steps. Generally, with satisfactory performance, an employee moves **automatically** from one step to another until the employee reaches the top step. For example, an employee at Step 2 will move to Step 3 after one year of service, which results in a 5% pay increase for that employee. Once the employee reaches the top step, the employee cannot receive any additional step or merit increases.

Additionally, an employee whose performance is above standard may be recommended to receive an additional one step merit increase above the automatic step increase. This option is only applicable for employees that are not already at the top step.

AEA, CAMP, AMSP and most of Unit 99: In these management and professional employee groups, the classifications have more steps, but each step is 2.5%, rather than 5%. For example, many classifications in this group have nine steps, thus, a one step increase is 2.5%. Some classifications have 17 steps. However, a key difference compared to the non-management groups is that movement along the steps is **not** automatic. An employee can only receive a step/merit increase if approved by the Appointing Authority based upon performance. The Appointing Authority has the discretion to limit the maximum number of steps an employee can be awarded, and the City Manager issues guidelines to departments on an annual basis. For example, last fiscal year, the guidelines provided for a maximum of a 5% increase for employees who were not at the top of the range. These merit increases are comparable to the non-management step increases, with the added element that they are based on performance and are not automatic.

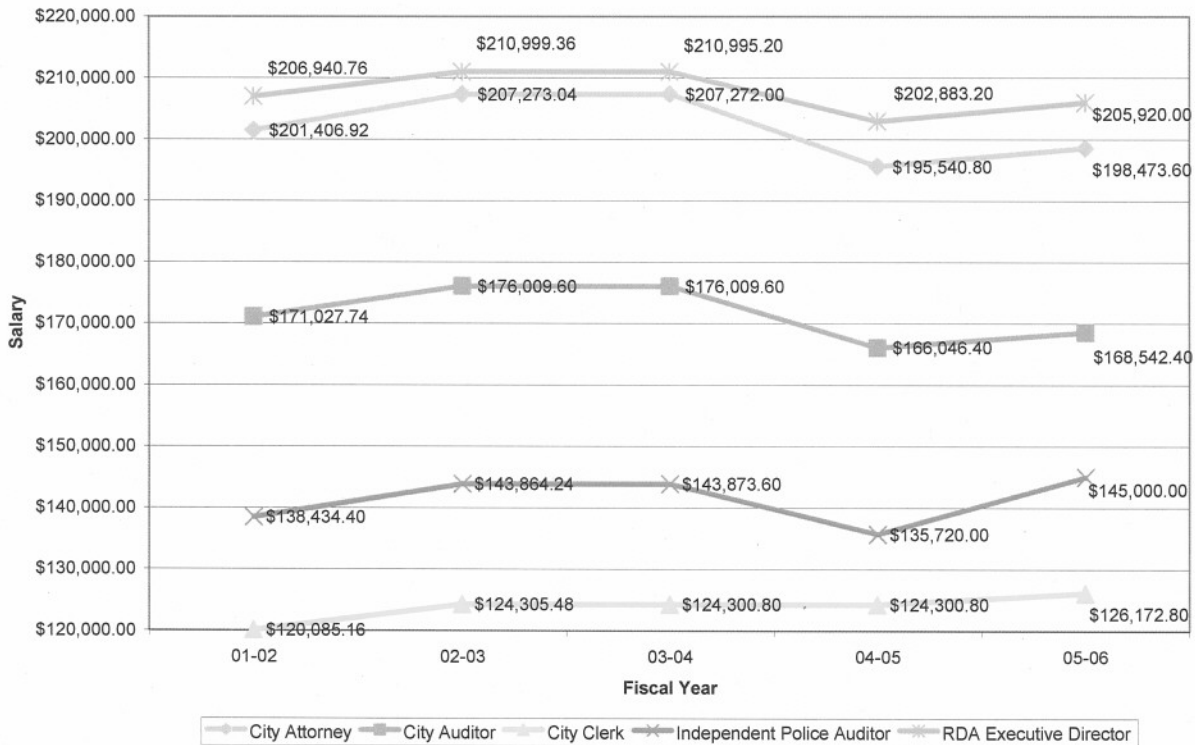
There are classifications in Unit 99, including Senior and Executive Staff that do not have steps. The salary range is open, which means that an employee can receive a performance based increase in an amount other than a fixed step increase. The salary range still has a minimum and a maximum. The average merit increase for Senior Staff in FY 04-05 was 4.92%.

Council Appointees

Council Appointees do not have salary ranges, and, therefore, they do not have steps. Thus, Council Appointees do not receive step or merit increases in the same way as other City employees. They also do not normally receive the General Wage Increases received by other employee groups, with the exception of the 1.5% this year. Any pay increase received by the appointees is based solely on merit and action by the City Council.

Following is a chart that demonstrates the pay progression for Council Appointees from July 1, 2001, to the present.

FY Total (Base and Merit) Pay Progression for Council Appointees



The actual current base pay of most incumbents is currently **lower** than it was on July 1, 2001. **It is important to note that no other group of City employees experienced pay reductions during this period.**

The salary for the Independent Police Auditor increased when a new individual was hired into the position. Also included above is a 1.5% salary increase, (except for the Independent Police Auditor who was recently hired) that was also provided to other City employees in July 2005.

COUNCIL APPOINTEE SALARY ADJUSTMENT OPTIONS

Based upon research and after feedback and discussion, three options are provided for the City Council's consideration. These options provide the Council a system by which to recognize the performance of the Council Appointees. Since the performance

appraisals have already been conducted, the Council can choose to utilize one of these options as a means to provide performance-based merit increases effective July 1, 2005. Please note that for professional and management employees, (AEA, CAMP, AMSP and most of Unit 99), any merit based increases were also effective July 1, 2005.)

The Appointees have already received a 1.5% general wage increase consistent with the increase provided to other City employees. The options presented below for the Council's consideration provide a means to award merit pay based upon the Council's evaluation of each Appointee's performance as determined by the City Council.

Option A – Provide a 2.0% Consumer Price Index (CPI) base increase utilizing the CPI All Urban Consumers for the San Francisco-Oakland-San Jose area for the annual period ending December 31, 2005 (index change from 199.5-203.4)

The following table demonstrates utilizing a CPI base increase for the Council Appointees. Since the Appointees (other than the IPA) received 1.5% in July 2005, the illustration below increases the current salaries of the incumbents by 0.5% in merit pay for a total increase equivalent to 2.0%.

Council Appointee	Base Pay (July 1, 2005 ¹)	Add Merit Pay Based on CPI increase of 0.5% (added to base pay)	Total New Base Salary under Option A effective July 1, 2005
City Attorney	\$198,474	\$992	\$199,466
City Auditor	\$168,542	\$843	\$169,385
City Clerk	\$126,173	\$631	\$126,804
Independent Police Auditor	\$145,000	\$725	\$145,725
RDA Executive Director	\$205,920	\$1,030	\$206,950

¹Includes 1.5% effective 7/1/05 – except Independent Police Auditor.

The Council requested to consider how an increase based on the Consumer Price Index (CPI) or some other index might be utilized. Typically, the City does not use an index as the sole consideration for pay increases. The use of an index by itself may not provide sufficient consideration for the performance of the incumbents and may have consequences on internal equity. For example, an index may not keep the appropriate pay differentials between Council Appointees and the staff that they supervise thereby creating compression between the supervisor and subordinates.

Option B – Provide a base increase consistent with the performance-based pay system used for Senior and Executive Staff.

The following option would provide merit based pay increases consistent with the performance-based pay system used for Senior and Executive Staff and for management and professional employees. This year, guidelines were used to establish recommendations for merit increases ranging from no increase to 5% for outstanding performance. The merit increases below would be awarded based upon the Council's evaluations of the Appointees, and any increase would be added to base pay.

Council Appointee	Base Pay effective July 1, 2005 ¹	Merit Increase ²	Total New Base Salary under Option D effective July 1, 2005
City Attorney	\$198,474	5.25%	\$208,893
City Auditor	\$168,542	5.25%	\$177,391
City Clerk	\$126,173	5.25%	\$132,797
Independent Police Auditor	\$145,000	5.25%	\$152,613
RDA Executive Director	\$205,920	5.25%	\$216,731

¹Includes 1.5% effective 7/1/05 – except Independent Police Auditor.

²The 0.25% is funded through a reduction in the Professional Development Program from \$1400 to \$1000.

Option C – Provide a base increase consistent with the performance-based pay system used for Senior and Executive Staff and provide additional, one-time merit pay using recently conducted performance evaluation ratings.

The following option would provide merit based pay increases consistent with the performance-based pay system used for Senior and Executive Staff and for management and professional employees. This year, guidelines were used to establish recommendations for merit increases ranging from no increase to 5% for outstanding performance. The merit increases below would be awarded based upon the Council's evaluations of the Appointees, and any increase would be added to base pay. In addition, this option would provide one-time merit pay consistent with the respective Appointee performance ratings.

Council Appointee	Base Pay Effective July 1, 2005 ¹	Add 5.25% Merit Pay to Base ²	Total Base Salary effective July 1, 2005	Remaining one-time Merit Pay less Merit Base Pay Increase ³	Add remaining one-time merit pay eff. July 1, 2005 – calculated on new base	New Total Base Salary Under Option C for FY 05-06
City Attorney	\$198,474	\$10,420	\$208,893	8.0%-6.75%=1.25%	\$2,611	\$211,505
City Auditor	\$168,542	\$8,848	\$177,391	9.0%-6.75%=2.25%	\$3,991	\$181,382
City Clerk	\$126,173	\$6,624	\$132,797	9.0%-6.75%=2.25%	\$2,988	\$135,785
Independent Police Auditor	\$145,000	\$7,613	\$152,613	7.0%-5.25%=1.75%	\$2,671	\$155,283
RDA Executive Director	\$205,920	\$10,811	\$216,731	8.5%-6.75%=1.75%	\$3,793	\$220,524

¹Includes 1.5% effective 7/1/05 – except Independent Police Auditor.

²The 0.25% is funded through a reduction in the Professional Development Program from \$1400 to \$1000.

³Includes 1.5% effective 7/1/05 and 5.25% - except Independent Police Auditor

Option C provides a portion of the performance pay as an increase to base pay and a portion to be paid for one year only.

CONCLUSION

The compensation program for Council Appointees is unlike other City employees. These positions do not have salary ranges that allow the Council to provide performance based increases within the range. Although Senior and Executive Staff also did not receive pay increases for two consecutive years, Council Appointees are the only employee group whose pay **decreased**. While the preferred option does not purport to address prior years, it does provide for pay increases for this year similar to a merit/step increase based on performance. The recommended increases in the preferred option are based upon the evaluations that have already been conducted by the City Council.

OUTCOME

Should the City Council recommend staff implement one of the three options presented above, the Council Appointees will receive performance-based salary adjustments consistent with the selected option. Employee Services will develop merit-based compensation plans and salary ranges as directed.

PUBLIC OUTREACH

N/A

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and Office of Employee Relations.

In addition, this item was discussed with the Council Appointees, the Mayor's Office, and the City Labor Alliance.

COST IMPLICATIONS

The total costs for each of the options are shown below and include the costs of the base salary increase, as well as the increased costs of associated fringe benefits.


The additional ongoing annual cost of the increase in Option A for the current incumbents is approximately \$5,122.

The additional ongoing annual cost of the increase in Option B for the current incumbents is approximately \$53,306.

The additional ongoing annual cost of the increase in Option C is \$53,306 and the cost of the one-time merit pay is approximately \$19,288 for a total cost of \$72,594 in Fiscal Year 2005-2006.

CEQA

Not a project.


MARK DANA
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